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ABSTRACT

The intervention of the United States government in agriculture in the 20th century is an explainable response to basic characteristics of agriculture: unpredictability, immobile resources, technological changes and disproportionate supply and demand factors. The concentration of large benefits among relatively few producers and diffusion of costs over a large nonfarm population make policy reform difficult. The policies in place since the 1930s have had both positive and negative consequences from a societal perspective. While farm policies have gradually become less distortive, less expensive, and increasingly sensitive to a broader array of social concerns, such as the environment and food safety, they still reduce the overall efficiency of the U.S. economy, regressively redistribute income and wealth, and divert attention and energy of policymakers away from more pressing rural and social problems. Increasing public understanding of the consequences of alternative policies will equip people for productive questioning. Such outreach is essential for policy reform and is both an opportunity and a challenge for public policy educators. (KS)

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OBSERVATIONS ON AGRICULTURAL POLICY, POLICY REFORM AND PUBLIC POLICY EDUCATION

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OBSERVATIONS ON AGRICULTURAL POLICY, POLICY REFORM AND PUBLIC POLICY EDUCATION

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Much has been written in recent decades by economists about the inefficiencies, injustices and environmentally degrading consequences of traditional U.S. agricultural policies, especially commodity price and income support policies. Yet farmers and many of their supporters continue to press for these traditional policies and Congress continues to produce them. And the general public seems relatively disinterested.

All of this is highly frustrating to agricultural economists and others who feel strongly that agricultural policy needs reform. One result has been a spate of new theories and explanations about why agricultural policy is "un-reformable."

Is it foolish to waste any more resources debating and analyzing agricultural policy? I do not think so. We should remember that the policies of the New Deal, which we still have in modified form, did not get put in place overnight. They were the products of at least two—perhaps four—decades of intensive debate, false starts and many frustrated initiatives. Even then, those policies might not have been adopted had it not been for a national economic crisis of historic proportions. So maybe it is not unreasonable that major new directions in agricultural policy may take a few decades of debate. And wouldn't it be ironic if a modern-day financial crisis—the national budget deficit—became the catalyst for sharply curtailing the policies that descended from the New Deal and thereby set the stage for a new era of rural policy?

Moreover, it is really not hard to explain why we got the New Deal policies, why they are hard to reform and what it will take to ultimately bring about reform.

Basically I treat four themes in this presentation: the past and present of agricultural policy are explainable; present policies do not serve the public interest very well; these policies can and will be gradually reformed; and extension public policy educators should be held accountable for their contributions to the process and outcome of that reform.

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Why Government Got More Involved

The roots of modern agricultural policies come from the turbulent period between World War I and World War II. In retrospect, the policy developments of that period are explainable. Let me give you my view of four factors explaining public intervention—government involvement in agriculture in a major way—in the first half of the 1900s.

Economic and Physical Characteristics of Agriculture

First of all there are some basic characteristics of agriculture, some unique to the United States, that help explain the temptations and pressures for government to become involved in agricultural markets.

Farming is a biological process. This means production is inherently unpredictable and highly variable. Weather variations cause production variations. These, in turn, cause price variations. Farmers react to price variations and sometimes that makes the variability worse. Thus farming is not like manufacturing cars or television sets.

The cobweb effect of disruptions in supply is important because it could mean wasted resources in production, unstable food supplies (including export disruptions) and undependable incomes to farmers. Thus, at various times, both producers and consumers have sought government involvement in agriculture to reduce instability of supplies and prices.

Resources in agriculture are relatively immobile. Land often has few alternative uses. It is kept in production as long as it can produce something that returns at least the out-of-pocket costs of production. Of course, land can be used for houses, shopping centers and recreation purposes, but only a small part of the land can be used this way. That was especially true in the 1930s and earlier. Labor was a bit more mobile in U.S. agriculture than was land, but not much more. Many farmers felt they were not qualified to do anything other than farm. Prior to WW II, there were few off-farm jobs readily available to farmers and farm workers. Thus, the labor resource was said to be "trapped" in farming.

Capital goods (barns, machinery, specialized facilities, etc.) in agriculture often have few alternative uses. Liquid capital, of course, is highly mobile and can quickly be moved to other parts of the economy. The importance of immobile resources to farm policy is that even though returns to land, labor and capital goods may be very low, these resources continue to be used to produce longer than would be the case in some other industries. Capital stock continues to be used to produce until it wears out, and labor stays in farming until the next generation comes along. As for land, the cropland

base in farming has stayed about the same throughout the century. As a result of all this resource immobility, there is a chronic tendency toward over-production and depressed prices and incomes.

In recent decades, the mobility of some agricultural resources, especially labor, has increased. Nevertheless, over most of the last sixty years, resource productivity has grown faster than demand for food. The level of resources needed in agriculture has declined faster than resources have been withdrawn from the sector. The result has been depressed prices and below-average returns on investment in farming. The importance of this characteristic of the farming sector will become apparent shortly.

Farmers are price-takers, not price-makers. In the United States, the farming sector has come closer to being a purely competitive market than most other sectors of the economy. Unlike automobile makers and other businesses in which a few large firms dominate the market, there are too many farms for any one of them to be large enough to set their own prices. Prices are determined by the aggregate forces of supply and demand (in the absence of government programs). Thus, individual farmers are not constrained by concerns about how more or less production on their farms will affect prices. But, what farmers do in total does determine prices.

Agriculture has had rapid technological change and productivity growth. This is not so much a generic characteristic of agriculture as a basic fact of U.S. agriculture since the 1930s. During most of the twentieth century, and especially since the 1930s, there has been strong growth in the productivity of resources used in farming, often faster than total demand has grown.

This means the supply curve has been shifting to the right faster than demand has been shifting. In other words, the amount farmers are willing to supply at any given price has been increasing faster than the amount people are willing to buy at that price. The net result has been downward pressure on prices (real prices of basic commodities have trended down over time).

Food demand has grown slowly. The United States, like most modern industrial nations, is a "food mature" economy. This means that most of the population is relatively well-fed and well-clothed. As incomes rise, not much of the additional income is spent on food. In economists' terms, the income elasticity of demand for food is low. Furthermore, most of the additional expenditure on food is for services and value-added to food rather than to increased volume of food consumed. Population has also been growing slowly. The net result has been slow overall growth in demand for basic food at the farm level.

Demand for food has been price inelastic. Since the 1930s, and especially since the 1950s the amount of food consumed by people in

the United States has not been very responsive to price. That means if the price of food goes down, consumers do not eat much more, and if the price of food goes up, consumers tend to sacrifice something else before they quit eating. The degree of responsiveness to price changes varies by type of food or commodity. Demand for foods perceived as more basic responds less, and demand for foods thought of as luxuries or less essential is more responsive to price changes.

The observation that the demand for food is price inelastic, or relatively unresponsive to price changes, has an important implication for farm policy. A reduction in supply leads to a proportionately greater rise in price. This raises the value of total revenue. The temptation to raise farm revenues by artificially reducing supplies on the market has bedeviled agriculture and policymakers since the beginning of modern agricultural policy in the 1930s, and some kind of supply control has been a consistent feature of farm policies for most of the last sixty years.

Combined effects of basic characteristics of agriculture. When the characteristics listed above are put together, it is easier to understand why agriculture has been viewed as unstable, risky and unprofitable. The pressures that lead to over-production, depressed prices and incomes, and instability—and the inelastic demand for food—help explain why the solution has always seemed to be to control supply, create artificial shortages and raise prices. Since no one farmer acting alone could raise prices by cutting his/her production, it seemed logical to have government be the agent to control production in order to get higher prices.

Incidentally, rarely have farmers relied solely on supply management programs to raise prices. Through the political process, they got the higher prices guaranteed first. Once higher prices were set (through loan rates and other price support tools), farmers and their organizations could then lobby for liberal treatment and loopholes on supply controls. Their efforts often succeeded, and that meant over-production, or production beyond what could be sold at the higher prices. But that was the government's problem!

Many of these basic characteristics of U.S. agriculture are common to agriculture worldwide, and most, if not all, apply to the industrial and food-surplus nations.

Societal Values and Beliefs

The second major factor explaining public intervention has to do with societal values and beliefs. An "agrarian fundamentalism" has been a dominant feature of the American culture from the early days of nationhood. This agrarian philosophy is a notion that farming is a morally superior occupation—work that is closer to God and

nature. This philosophy has never been well articulated and stems from a mixture of ideas and roots from many sources. Thomas Jefferson espoused it. He argued that a nation of small freeholders was the best way to protect a democratic society. Small "family" farmers were seen to be honest hard workers who had a vested interest in the common good, because as freeholders they owned a piece of the nation.

This societal value was still powerful in the 1930s when a majority of people still lived in rural areas and had some direct or indirect connection to farming. Even today, many Americans are still only one or two generations removed from rural or farm life and can identify with the problems and benefits of farm living. The "family farm" still enjoys strong emotional and political support from the American people.

Economic Feasibility of Providing Assistance to Farmers

Third, by the 1930s, farmers were a small enough part of the total economy that it was *economically and politically feasible to make transfer payments to them.* When most Americans were farmers, farming was most of the economy. When farmers were doing poorly, the economy and public revenues did poorly. It was simply not feasible for a minority of the population to make transfer payments to the majority population.

As farmers became a smaller part of the total economy, providing some assistance to them was not only viewed sympathetically by the urban and non-farm population (many with recent farm roots), but was also increasingly financially feasible and less burdensome to non-farm taxpayers.

An observation: In general, poorer nations of the world, whose farmers make up a large part of the population and whose farmers tend to be even poorer than the rest of the population, tax agriculture. Wealthier industrialized nations, whose farmers make up a small part of their population and whose farmers tend to be wealthier than the rest of the population, subsidize farmers.

In both cases, national wealth is regressively redistributed. This seemingly perverse situation is merely a matter of practical expediency. In many poor nations, taxing agriculture is one of the few ways to get public revenue to invest in the rest of the economy. In rich nations, the rest of the population can afford, often at very small per capita costs, to support agriculture, and the political sympathy is there to make it happen.

1930s Economic and Social Conditions

The fourth factor that served as a catalyst for major government intervention in agriculture was the economic and social crisis of the

1930s. After the collapse of grain export markets following World War I, economic conditions in rural America were severely depressed for more than two decades. The Great Depression of the 1930s merely exacerbated the poor conditions that had prevailed in agriculture during the 1920s. During this period, most farms were small and their owners poor. Yet farming was still the predominant activity in most rural parts of the country and, in the 1920s, rural people were still nearly half the total population.

Thus, the large number of economically depressed people—a big part of the total population—constituted a major social problem as well as an economic problem for the nation. Addressing the problems of the rural population was a high priority during the 1930s, and providing financial assistance to farmers was one way policymakers thought they could help.

So, there you have my explanation for why the U.S. government got involved in modern farm policies. The basic conditions of agriculture led farmers to seek intervention on their behalf; strong agrarian values and beliefs gave the nation's people and policymakers warm fuzzies about helping "family farmers"; the growth in industrial wealth and the decline in numbers of farmers relative to the non-farm population made it possible to redistribute wealth from non-farm to farm; and a national economic and social crisis lit the match!

Characteristics of Policy Responses

Agricultural policies since the 1920s and 1930s have focused heavily on improving financial conditions for producers of selected commodities (an inherent unfairness), especially feed grains, food grains, cotton, oilseed and dairy products. Those policies have been varied and complex, but there have been some common characteristics.

Supply Management

Almost continuously since the 1930s, U.S. agricultural policy has contained some element of supply control.

Since farmers were too numerous to act in concert to manage supply (some farmer organizations tried and failed), the federal government has acted as their monopoly agent or manager. But, government has not always managed well.

Supply controls have sometimes been mandatory and sometimes voluntary (with incentives offered to get cooperation).

The objectives of supply management have been several:

- Increase commodity prices by "shorting" the market (with inelastic demand, this also increased revenues to farmers).

- Reduce treasury costs of price support programs.
- Assure a more stable supply of commodities to meet domestic and export needs.

Supply controls used in U.S. farm programs have tended to be indirect controls. Most often, for broad-acre crops, the attempts have been to control supply by controlling one major input, land. Meanwhile, no limits were put on other inputs such as fertilizer, pesticides, water and new technology. In fact, these other inputs, including the credit to buy them, were often subsidized. Farmers also generally took their least productive acres out of production. The results have been slippage in land control and ineffective control of supply.

For most commodities, supply control has meant control of U.S. production. There are exceptions, such as sugar, whereby high prices are maintained by limiting imports.

Price and Income Supports

Since the late 1930s, supply control programs have been accompanied by price and income support programs. Although the earlier rationale for production controls was to reduce supply and strengthen prices, production controls in recent decades have come to be seen by farmers as the political price that must be paid to get access to price supports.

Prices have been supported in several familiar ways including non-recourse loans, target prices with deficiency payments and other price support mechanisms.

Price Stabilization

Several government-sponsored storage programs have been designed to stabilize prices by taking supplies off the market during times of surplus and putting them back on the market when there are shortages. These storage programs have been less than fully successful because of the political temptation to use them to raise prices and incomes, rather than to smooth out supplies and prices. Import quotas and barriers and marketing orders are other tools of price stabilization.

Risk Reduction

While the aforementioned characteristics of modern U.S. agricultural policy have transferred some farmer risks to the rest of society, there have also been specific risk reduction programs, such as federal crop insurance and loan guarantees.

Demand Expansion

Another recurring theme in U.S. farm policy has been the interest in strengthening commodity prices and producers' incomes by expanding demand for farm-produced products. Examples of such programs include: food stamps for the poor to expand domestic food consumption; disposal of surplus commodities to needy groups and charities; food aid for other countries; research on development and marketing of new products ranging from foods to bio-fuels; authorization of commodity "check off" collections for market-expanding research and promotion programs; support for private industry groups to set up overseas programs to promote use of U.S. farm products; export credits and credit guarantees; direct export subsidies; and public investment in research and technology to help the United States be a low cost competitor in world markets.

Consequences of U.S. Agricultural Policies

U.S. agricultural policies and programs have been put in place to achieve several stated and implied objectives. Among these are stabilization of farm commodity supplies and prices, enhancement of producer incomes, assurances of adequate supplies of affordable food and preservation of the "family farm" structure of the farming sector. Most serious analyses suggest that some of the intended benefits have been achieved, accompanied by many unintended side effects and longer-term consequences.

- *Programs reduced risk and supported a technological revolution in U.S. agriculture.* Price support provisions of farm programs did reduce risks in farming by stabilizing prices and increasing short-term profitability. With reduced risk, farmers were more willing to borrow money to invest in technological improvements and lenders were more willing to lend. This tendency was abetted by the establishment of new credit institutions just to serve agriculture and by credit subsidies. These new developments coincided with the availability of a stream of new technologies in the 1930s, 40s, and 50s. This technological revolution greatly increased the productivity, production capacity and global competitiveness of U.S. agriculture.

- *Agricultural policies improved farmers' incomes but gains were difficult to maintain.* Clearly, producers of some agricultural commodities had higher incomes in some years because of the various price support and subsidy programs. But the higher incomes contributed to forces that undermined the longer-term value of this income. Studies have shown that much of the higher income was capitalized into higher asset values, especially land values. Farmers received the benefit of these higher values of assets only if they owned the assets. The higher asset values also became higher longer-term fixed costs of production, and ultimately led to pressure from farmers to increase subsidies to offset the higher costs. Thus,

the short-term gains in farmers' incomes led to a distortion in asset values, especially land, and contributed to an upward cost-price spiral.

- *Support policies led to over-investment in agriculture.* Higher incomes and subsidized credit led to over-investment in machinery and equipment, capital facilities and various new technologies. As a result, the tendency to overproduce farm commodities was compounded and greater reliance had to be put on supply control programs. Because domestic demand for farm products did not keep pace with growth in capacity to produce, exports also became a critical outlet for excess production. When exports did not expand as rapidly in the 1980s as in the 1970s, the over-investment in the U.S. agricultural production capacity became unsustainable, and for the first time since the 1920s and 1930s, there was a massive withdrawal of capital from the farming sector and a major deflation in asset values (Lee). This was a very wasteful and painful adjustment, but one that could be attributed in part to the policies that led to over-investment.

- *Agricultural policies fostered major structural change in the farming sector.* The combination of increased stability, productivity and technological change led directly to fewer and larger farms. This is because individual farmers or workers could directly manage larger and larger operations as technology was substituted for labor. Larger and more efficient tractors and equipment meant one farmer could farm much larger tracts of land on a timely basis. The technology revolution also meant farmers became less self-sufficient; that is, they became more dependent on non-farm suppliers of fuel, chemicals, seeds and other supplies and the credit to buy them. This also meant more of each dollar of income from commodity sales went to pay outside suppliers rather than being retained by the farmer who previously had produced most of the necessary inputs on the farm. The smaller net margin per dollar of income meant farmers had to increase sales volumes to maintain acceptable net incomes. Smaller farmers had to choose whether to increase the size of their operations to maintain competitive farm incomes, to get out of farming altogether, or to supplement their farm incomes with off-farm income. As a result of these forces, which are partly due to the agricultural support policies in place since the 1930s, agriculture has been transformed from a low-technology, labor-intensive industry to a high-technology, capital-intensive industry with much greater concentration of production in fewer, larger farming operations (a good summary is found in Tweeten). In the 1930s there were more than six million farms in the United States. Today there are about two million farms, farming about the same total acreage, producing a several-fold increase in total output, with one-half of the value of all production coming from about 75,000 large farms (Peterson and Brooks).

- *Agricultural policies have distorted resource prices and use.* As a result of incentives to over-invest and to use alternative inputs to offset limits on the amount of land that could be planted to a specific crop, the mix of land, labor and purchased inputs used to produce some crops is different from the most efficient mix that would be used if there were no distortions caused by agricultural programs. More chemical fertilizers and pesticides are used to get more production because land use has been limited by supply control programs. Supply controls that limit only land use have encouraged investment in irrigation systems. The inefficiencies in use of national resources, especially capital, resulting from distortions caused by farm policies, cost the overall economy thousands of jobs.

- *Consumer effects of agricultural policies are mixed.* The effects of current U.S. agricultural policies on the cost of food are small. Products made from basic commodities such as grain probably cost less than they might cost otherwise because programs for these commodities tend to stimulate over-production and lower prices and, currently, purchasers buy the commodities at market prices, not target prices. Also, the existence of support programs for more than five decades probably means the United States has larger production capacity, larger supplies and lower market price than would otherwise have been the case. Also, the abundant supplies and low prices of grains mean more plentiful supplies of livestock products. For some specialty commodities, such as sugar, peanuts and milk, consumers pay more because of the way support is provided to producers of those commodities. Take peanuts, for example. The policies set a very high guaranteed minimum price, restrict production to drive market prices up to the guaranteed price, and provide import barriers to cheaper foreign peanuts. The result is fewer peanuts at higher costs to consumers.

  Overall, U.S. consumers have access to abundant food at low costs, allowing them to spend more than 85 percent of their incomes for other needs and desires. However, the distortions in resource use because of agricultural policies have caused some other concerns for consumers. These concerns are food safety and environmental degradation. The food safety concerns came from heavy use of chemical pesticides and fertilizers that may leave unsafe residues on food or contaminate drinking water. Some of the environmental concerns also stem from the heavy use of chemicals and the more intense use of land and water because of the supply control and support programs.

- *Benefits and cost of U.S. agricultural policies have been distributed unevenly.* While modern farm policies and programs were originally put in place to assist a farm sector that was economically depressed and disadvantaged, the programs continue even though

today's typical commercial farmers (defined as those with annual production value of $100,000 and more) have incomes greater than those for average non-farmers, and wealth many times greater. The result is a regressive redistribution of income from taxpayers generally to operators of commercial farms. Further, studies show that even among farmers, 80 to 90 percent of farm program direct benefits go to 10 to 15 percent of all farmers (Whittaker). Many farmers get no benefits at all if they do not produce the commodities covered by the farm support programs.

For producers of some specialty commodities, such as sugar, peanuts and milk, the benefits of the support programs are captured by a small number of producers, while the costs are borne by taxpayers and consumers.

To the extent that higher incomes resulting from support programs get capitalized into higher land values, the beneficiaries are landowners. If these are non-farm landlords, they get the benefit while farmers who rent the land have to pay higher rents.

U.S. agricultural support programs have provided assistance primarily to farm operators and asset owners, not to farm workers. Thus, the costs of some major technological improvements, such as mechanical cotton harvesters, have been borne almost entirely by the displaced workers and their families.

The distributions of benefits and costs of various agriculture support programs are neither well-documented nor well-understood, but they are clearly uneven.

- *Treasury costs of U.S. agricultural policies have been high.* In recent decades, most of the direct costs of farm support programs have been borne by taxpayers rather than consumers. This is because producers of grains, cotton and oilseeds receive most of their benefits as direct "deficiency" payments, rather than through artificially high market prices. For milk, both consumers and taxpayers have to pay because treasury costs are incurred to buy excess supplies, creating an artificial shortage and resulting in consumers paying higher milk prices.

  Most of the treasury costs of modern U.S. farm programs have been incurred since 1980 (Rapp). The 1985 farm bill lowered loan rates (support prices) to let market prices prevail and provided support through direct income (deficiency) payments. The resulting programs were more market-oriented but also more expensive.

- *Some U.S. agricultural policies have fostered protectionist border policies.* As is the case in most industrial countries, protectionist border policies have to be established to protect domestic support programs. High support prices require import controls to keep buyers from substituting cheaper foreign commodities for domestic

commodities. This is especially the case today in the United States for sugar, peanuts and dairy products.

What Have We Learned?

First, I believe it is fair to say the United States has not had a comprehensive food and agriculture policy. What we have had is an income enhancement policy for producers of selected commodities. The policies have been essentially of, by and for commercial and larger producers of those commodities. For the most part, our policies have ignored or put low priority on farm workers, consumers, environmental interests, food safety and rural problems. Obviously, this is somewhat of an over-statement. Recent comprehensive farm bills have included titles on many of the aforementioned topics. But, it is still true that commodity price supports and income transfers to commodity producers have been the consuming interest of the agricultural establishment.

I believe this is gradually changing, partly because there are now broader interests represented around the policy negotiating table. Environmental programs such as water quality, wetlands, the Conservation Reserve Program (CRP), etc. and food safety programs are certainly becoming more prominent features of agricultural legislation. But hired farm workers and migrant laborers are not likely to see much regarding their interests in traditional farm bills. Efforts to ensure worker safety and health have mostly originated outside the agricultural establishment and have often been opposed by farmers and their representatives.

A *second* and more positive general observation is that there have been some successes.

- The establishment of new, agriculturally-oriented credit institutions and stabilization/support of commodity prices in the 1930s and 1940s, combined with the new technologies resulting from major public investments in research, made possible the surge in productivity that modernized American agriculture, lowered the real cost of food and made it possible to devote the vast majority of the nations non-land resources to improving other aspects of the quality of life. This is a huge contribution and should never be unappreciated. But it is not necessarily a rationale for continuing current programs into the future.

- Recent reforms have reduced distortions in prices and resource allocations. Replacing loan rates (support prices) with target prices and deficiency payments was a major step in the direction of a more market-oriented production sector. Also a combination of fixed program yields and "flex" acres (a reduction in the crop eligible for subsidies) means that, at the margin, as much as one-fourth or more of the production of affected commodities is being produced for market prices. These recent developments have

also forced farmers to reduce costs and improve their competitiveness in world markets.

- There have been improvements on the environmental front. Soil erosion is far less a problem today than fifty years ago. No-till and reduced tillage are common in some areas. Our pesticides are safer and used more judiciously (a far cry from the days when we sprayed DDT on everything and threw the empty containers in the creek). Compared to the 1950s, 60s and 70s, we are more likely today to preserve wetlands than drain them, and, in general, we are far more conscious of water quality and long-term sustainability than were previous generations.
- Food is safer to eat and less likely to be as fatty and salty as in the past. We are also more conscious of food safety and healthful eating habits.

A *third* observation is that often the programs put in place do not achieve the intended objectives, and often there are unexpected and unintended side effects, especially in the longer run. Examples abound and this audience is familiar with them. These outcomes result in part from lack of clarity and consensus about objectives of policy, failure to conduct adequate prior analyses of probable effects of policies, slippage between policy and implementation, and general unawareness on the part of policymakers and their constituents of the consequences of specific policies.

My *fourth* observation is that the legislative successes of the commodity organizations and the single issue interest groups have caused the general farm organizations to re-examine their strategies and to focus their energies more narrowly on commodity/producer support policies in recent years, in contrast to their representing rural interests more broadly earlier in the century (see Browne for a more in-depth treatment of this point). This probably also caused the U.S. Department of Agriculture (USDA) to become more narrowly focused on traditional commodity support and trade policies in the 1970s and 1980s, at a time when many in society were expressing interest in agricultural matters from a broader perspective. This tendency on the part of USDA was likely reinforced by the restructuring of the agriculture committees, especially in the U.S. House of Representatives.

A *fifth* observation is that our policies have often been very inefficient in achieving objectives such as income transfers.

Sixth, policies established long enough to build up a benefitting clientele, are hard to reform, even though the situation originally addressed by the policies may no longer exist. More on this shortly.

Finally, and to the point of this conference, the public's understanding of the agricultural economy and of agricultural policy is abysmal. This is true even among farm and rural people, to say

nothing of the urban folks. This ignorance is not unique to agricultural policy. But what does it say for the effectiveness of decades of public policy education? This lack of public understanding makes it possible for special interests to develop policies that serve them well, but which may not be in the long-run interests of society at large or even of the agricultural industry.

At this point it serves the purpose of my thesis to briefly summarize my view of the status of agriculture, especially the farm production sector, and the policies for that sector.

Summary Status of U.S. Agriculture and Policy

What is the status of the American farm sector? That question can be answered in terms of financial conditions, organization of the farm sector, financial structure of the sector and in many other ways. For the sake of dialogue, let me throw out a perspective on the status of U.S. agriculture, especially the farm production sector.

The farm sector represents less than 2 percent of the nation's gross national product (GNP) and labor force (the proportion continues to decline) and less than 10 percent of the rural economy. In part that is a tribute to the success of investments in science and education, which allow providing a growing value of output with a declining drain on the nation's resources. This has permitted an abundance of food and fiber while freeing up resources to invest in other improvements in the material well-being of the population. That is the ultimate mark of a sector's success!

As an aside, most of rural America was populated to develop the natural resource based industries: agriculture, forestry and mining. All these industries have seen rapid technological advances, meaning that fewer and fewer people are required for more and more output. Thus, the amount of cropland and forest land has stayed about the same, but relatively few people are required to do the work. This has led to a natural depopulation of the countryside; a phenomenon having nothing to do with low commodity prices or hard times in farming—nor with evil plots in corporate headquarters or government offices.

So, we have a vigorous agricultural sector that is highly competitive, producing an abundance of food for our tables, but requiring very few people. How few? The more than 6 million farms of 1940 are now down to around 2 million. Of these, 75,000 farms produce one half of all the value of production. About 550,000 to 600,000 farms produce 90 to 95 percent of all agricultural production or virtually all commercial agricultural output. The rest of the producers, on average, are not poor, do not farm for a living and often do not even identify themselves as farmers. Within that set, of course, there is great diversity, from wealthy weekend hobby farmers to Black operators of small North Carolina tobacco farms living in poverty.

For the most part the 550,000 to 600,000 farms that make up the commercial farming sector are competitive and doing as well or better financially than clothing stores, restaurants and other small business sectors of the economy. In a given year, some farms make a profit and some lose, but that is not greatly different from other sectors of the economy. It is not unusual for other small business sectors to experience 10 percent and higher annual failure rates (based on data in Miller). In all of the 1980s, the toughest decade since the 1930s, the United States never had a farm business failure rate that exceeded 3 percent per year. In fact, in the 1980s the proportion of farmers going out of business for all reasons was not out of line with the long-term trend. The drop in farm numbers, the smallest of any decade since the 1930s, occurred primarily because of fewer new entrants than normal (Stam).

The 550,000 to 600,000 largest farms not only produce most of the nation's agricultural products, but the average income of their operators is above the national average for all households, their net worths typically far exceed those of non-farm households or comparable small businesses, and they receive most of the benefits of federal subsidy programs. In fact, since virtually all the deficiency payments and other direct subsidies go to producers of three commodity groups (feed grains, food grains and cotton), approximately 90 percent of total direct deficiency payments go to about 200,000 (about 10 percent) of all producers.

Thus, while the price and income support programs do transfer several billion dollars each year from taxpayers that on average have less income and wealth than the farmers receiving it (called regressive redistribution of income), there is little evidence to support claims that we would suffer a shortage of food and fiber without those payments. Moreover, because of the way we go about subsidizing agriculture, it costs about $1.40 to transfer $1 to farmers (Roningen and Dixit). Were it not for farmers' distaste of transparent welfare, it would be cheaper just to forget the programs and write checks directly to farmers each year.

Meanwhile, the "small family farmers," those other 1.5 million or so farmers whose names are invoked in support of farm welfare, get virtually no benefit from farm programs. In fact, we could greatly increase farm prices and do relatively little to affect the general well-being of small farmers (and in the process wipe out our foreign markets and have to shrink our agricultural plant dramatically).

This farm sector that provides an abundance of output with a smaller and smaller proportion of the nation's resources does so in ways that are less erosive and environmentally damaging than in the past. Better practices, safer chemicals, alternatives to chemicals and greater sensitivity to long-term sustainability are products of public and private investment and better technology and better education.

We still have problems in this regard but we are moving in the right direction.

In short, we have an agricultural sector that is providing ever greater abundance and quality at declining real cost to consumers for a declining share of national resources and doing so in ways that are increasingly sustainable for the longer term. The policy failures, if that term is appropriate, are not those of technological progress and structural change, but rather those of failing to adjust sector assistance policies to present day realities (if we were starting from scratch today, would the public stand for putting in place a set of programs like those we inherited from the 1930s?) and failure of public policy to match investments in technological improvements that provide a net benefit to society with investments in easing the burden on those who bear the brunt of the economic and social adjustments to the technological changes.

With regard to the latter point, most of the rural-based rhetoric today about problems attributed to "low farm prices" is really a reflection of the pain of those who lose in the adjustment process that accompanies technological progress—dying small towns, erosion of rural public services (health, education, etc.), youth leaving rural areas in search of jobs elsewhere, elderly left behind, nostalgia, loss of the familiar, etc., etc.—all part of the economic, social and psychological cost of change and progress. The response should not be to stop change and progress, but to have those who benefit from the progress (society in general) share some of that benefit to ease the pain of adjustment, especially for those least able to afford it.

Why Is Policy Reform So Difficult?

For years, economists have been demonstrating that current and traditional agricultural policies lead to distortions in resource prices, misallocation of resources, reduced economic efficiency, environmental degradation and even some regressive redistribution of income and wealth. In at least two decades of agricultural policy conferences, including this one, economists have rehashed these findings and then shared their puzzlement over the intransigence of established policies. I even detect an air of resignation among economists, as though accepting that the body politic just somehow does not grasp the obvious "truths" as we define them.

I believe the slowness of policy reform is logical and explainable. Recall the earlier statement that as farmers became a smaller part of a large industrialized economy, providing some assistance to them in a time of crisis (the 1930s) was not only viewed sympathetically by the urban and rural non-farm population, but was also increasingly financially feasible and affordable by non-farm taxpayers. In other words, large transfer payments could be made to a relatively small

farming population at relatively small per-capita costs to the large non-farm population.

Once in place, farm assistance got institutionalized and, as farmers continued to become a smaller part of the population, that assistance became more difficult to reform. As a general rule, in instances in which a few people enjoy large benefits whose costs are widely diffused across many other people, policy reform is difficult. When policy reform poses threats to the large transfer payments from society to farmers, especially large farmers, those beneficiaries have both the incentive and the means to wage a defense of their benefits. Since reform generally implies only small per capita gains to the rest of society, debate about policy reform generally falls on disinterested ears among non-farm interests. You can guess the usual outcomes of those battles.

It is somewhat ironic that farmers have long worried about their declining numbers on the presumption that declining numbers mean declining political clout. In fact, it is their relative fewness that has given them their clout. With the number of producers receiving major benefits being relatively small, with agriculture still physically highly visible on the landscape and with every senator having some agriculture in his/her state, conditions are right for continued income and wealth transfers to farmers.

Several factors aid and abet the status quo. One is the structure of congressional committees which permits most of the debate about agricultural policy to be confined to the committees made up of a relatively small number of congressional members whose political commitment is to established beneficiaries of existing programs and whose political fortunes also benefit substantially from that commitment. An occasional Don Quixote to the contrary, most members of Congress not on the committees see little political capital in doing anything other than endorsing the recommendations of the agricultural committees. To improve their clout, agricultural interests have aligned themselves into specialty groups to focus their lobbying efforts on the even smaller congressional subcommittees that deal with their specialty.

Another factor making it easier for current beneficiaries of farm programs and their congressional supporters to get away with their protection of the status quo is the combination of misperceptions and ignorance about agriculture on the part of most of the population. This ignorance permits the use of rhetoric about saving the family farm, saving rural America and assuring that we do not run out of food to defend programs that: transfer most of the subsidies to farms quite different from those in the minds of sympathetic city folks; have little to do with the well-being of most people and communities in rural areas; and have virtually nothing to do with the adequacy of

food supplies. Reducing this ignorance is the key to policy reform. It is also our responsibility as public policy educators.

Why Is Policy Reform Important?

With the costs of farm programs in the $8 to $12 billion range annually, out of the $1.5 trillion federal budget (about .7%), the cost of farm programs is no longer a rallying cry for reform. One could eliminate all farm programs having direct and indirect transfer payments and hardly make a dent in the federal deficit, let alone the budget.

A more important reason to reform farm programs is their inherent unfairness. As I have already discussed, they simply make no sense because they regressively redistribute income to those who are either wealthy or could cope without that additional income, and do little for people really in financial need. In the process they lead us to pursue distortive domestic policies and protectionist trade policies.

But, the most important reason to reform farm commodity and trade policies is that the continuing preoccupation with them diverts the energy of our people and the national leadership away from development of policies that address widespread rural poverty, urban and rural hunger, creation of a new rural economic vitality, and a host of other problems far more important than whether the Acreage Reserve Program (ARP) on rice should be 5 percent or 10 percent. These bigger problems should be shaping a whole new agenda and sense of purpose for the USDA. The emphasis and energy and endless debate over continuing adjustments in, and management of, past farm legislation and planning for the upcoming 1995 farm bill while major rural social and economic problems remain unsolved, are examples of fiddling while Rome burns!

Public Policy Educators and Future Agricultural Policy

This conference—and our jobs—are about public policy education. The job of educators is to educate. Education is not simply the sharing of our own knowledge and biases, but rather it is teaching people how to think for themselves. The operative current fad word is "empower." This means helping people learn how to find and process information such that their decisions maximize the satisfaction of their values and goals.

Those who have been empowered and motivated to seek and process information may even come to reevaluate some of what they had held as basic values. This is because some of those "values" may not be fundamental values at all, but rather old manifestations of values based on beliefs about the relationships between the old manifestations and more fundamental values. But if in the process of gathering and objectively processing new information, such people

become convinced those relationships, in fact, do not hold, they are likely to question the manifestation they had previously thought of as a fundamental value.

For example, suppose you are an agrarian fundamentalist; you hold dear the concept of an agrarian society or the agrarian lifestyle because you feel people who work the soil and work with animals are closer to nature and therefore more likely to be keepers of the societal values—honesty, decency, God-fearing—that really are important to you. Further, you support, let us say, high price supports because you believe they preserve the agrarian lifestyle and therefore perpetuate behavior consistent with your basic values. But all of the above becomes questionable if you accumulate and process information convincing you that high price supports do not, in fact, assure the preservation of an agrarian society and, furthermore, that farmers are no more honest, decent and God-fearing as a group than are carpenters, salesmen or—perish the thought—agricultural economists.

Questioning is a part of the educational process, whether it leads to changing or reaffirming one's beliefs. Equipping people for productive questioning is simply a part of helping people learn about gathering and processing information.

The "information" learners need to process includes not only "statistics" and research results, but exposure to divergent views and the rationale behind those views. The know-how to process that information includes knowing how to critically evaluate the information, which may lead to seeking more information.

This may all sound a bit abstract, but it is what we, as public policy educators, are all about. Public policy education is hard work. It is much harder than traditional technology transfer whereby you relay to the customer the results of research or demonstrate improved practices. Even with technology transfer, you have to teach farmers and others how to evaluate the new information and make their own decisions. But it is much easier to convey the test results of a new crop variety or the comparative environmental impacts of new and old practices than to conduct educational programs in areas that tend to impinge on people's values and beliefs.

One of the big challenges in public policy education is to avoid the temptation to share one's own biases or views on "right" and "wrong" policies. I suppose some of that occurs in non-policy areas too; e.g., county agents who tell farmers what practices they "ought" to follow rather than teaching farmers how to evaluate alternative practices for themselves. But, the problem seems to be more pervasive and dangerous in the area of public policy. Also, farm policy tends to be more controversial and we, as public policy educators, are sensitive to controversy. Thus, extension workers and others involved in outreach have few qualms about talking with

constituents about a new plant variety, but we often tremble at the prospect of conducting policy education, especially when the students are already on record with their views—loud and clear.

How do we make progress? First, I believe we should all be better students regarding agricultural policy. It is essential that people in the public policy education business be fully knowledgeable about the evolution of agriculture and agricultural policy, about the fundamentals of agriculture and society that drive policy and about how to analyze the consequences of alternative policies.

Second, in order to be better educators, we have to be better students of the learning process. That is, we really have to work at being better at helping people learn how to think for themselves and how to find the fodder for that thinking. The extension "learning workshop" that preceded the Orlando American Agricultural Economics Association (AAEA) meetings in August of this year was helpful, as are the workshops conducted annually at this conference. Perhaps we need to adapt and improve on those workshops and incorporate them more widely in in-service training in the states.

Another thought. Perhaps scholars and practitioners should be convened to draw up some national standards for evaluating the content and effectiveness of public policy education programs. Those standards could be used as guidelines for state and federal program reviewers.

I believe the future direction of public policy for agriculture depends very heavily on how producers and their representatives view their vested interests as being affected by alternative policies, and on how well the rest of the population and its leadership understand the state of agriculture and the consequences of agricultural policy. I truly believe in the effectiveness of transparency in policy. Despite all the farm policy conferences that have been held, and the public policy education programs underway, U.S. farm policy and its domestic and global effects are not transparent to the vast majority of the American people. Correcting that condition is our challenge.

It is important that public policymakers themselves understand the consequences of alternative policies and the effectiveness of alternative approaches to achieving policy goals. I am convinced some of them already understand much of what I have discussed in this paper. But leaders cannot go farther than followers will follow. Thus, if we want better policy from the Congress and the administration we have to have an educated public demanding better policy from their leaders. Policymakers *do* represent the sentiments of the majority of their constituents, and agricultural policy at any point in time probably reflects the state of perception and policy literacy on the part of producers and the general public.

Conclusion

I was asked to share some of my biases and observations. I have done as I was requested in the hope of stimulating useful dialogue. In keeping with my role of sharing biases, let me end with a forecast of the direction of agricultural policy over the next two decades.

Commodity support programs will not end abruptly in the near future but will slowly fade into the background and become less and less the center of attention. The budget will continue to constrain expenditures, but that could mean expenditures continuing in the $6 to $12 billion range for several more years. Budget pressures could force some creative thinking about the tools of farm assistance. If the House and Senate conferees agree to eliminate the wool and honey support programs this year, that will set a precedent. But the precedent will more likely be applicable to minor commodities than to the big three: cotton, grains and oilseeds and dairy. The clout for those major, widely-produced commodities is still substantial.

Commodity support programs will also slowly become less attractive to producers. As pointed out earlier, because of fixed program yields, 0-92 type programs and reductions in the acres eligible for payment under the flexible acreage program, the proportion of grain production covered by target prices and deficiency payments is now likely below three-fourths and declining. In time this could reduce program participation and hence effectiveness of supply management.

Also, traditional commodity policy will fade into the background because of the pressures of other issues and constituencies. Already more than half of the USDA's budget goes for food stamps and food assistance programs. More than one third of USDA's employees work for the Forest Service. The farm assis tance programs account for less than one-fourth of USDA's budget. Still, the secretary of agriculture tends to be consumed by traditional farm commodity policy issues. This is true because we are always in the process of implementing a recent farm bill, managing existing legislation or preparing for a new farm bill. This is also true because we have an accumulation of sixty years of farm programs that require a continuous flow of day-to-day operational decisions by the secretary. However, as new issues are around longer, and laws and regulations begin to accumulate for those new issues, more of the secretary's attention will be drawn to necessary decisions in the management of those programs, and she/he will be less preoccupied with traditional commodity programs. That is already beginning to happen for environmental programs and, to a lesser extent, for food safety. As the attention of the secretary is forced to shift, and as new infrastructure and political alignments develop around the new issues, the character of the USDA will change also; more than it already has.

Finally, within the next five to ten years, the generation of people who have staffed the USDA and the congressional committees during the post World War II period, mostly white males with farm backgrounds, will have retired. In fact, within the next two years USDA is projecting that about half of its senior executives will retire. These are the experienced people who have grown up with and managed the traditional agricultural policies for the past three or four decades. This retiring generation will be replaced in the USDA, congressional committees and Washington lobby groups by a generation that comes largely from an urban background and, particularly in USDA, is more reflective of the larger population mix. This new generation will be talented and competent. But their understanding of, and their emotional commitment to, agriculture will be different from those of their predecessors. Moreover, because of their backgrounds, they will bring to their jobs less of a farm perspective and more of a broad orientation toward a whole new array of social, environmental and economic issues. In that environment and with all the other changes gradually taking place, agricultural policy will be a whole new ball game.

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